

Voluntary Report - public distribution

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## **Korea, Republic of**

### **Promotion Opportunities**

### **Quarterly Market Highlights**

### **2003**

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**Report Highlights:**

The recent forecast for GNP growth is 3-4 percent, down from 6.3 percent in 2002. The rising credit card debt is somewhat responsible for the weak consumer demand. SARS does not seem to be playing a specific role in the South Korean economic downturn, but there is concern over the indirect impact on exports to China. In comparison from last January-May, total agricultural, fishery, and forestry imports from the U.S. are up 5.4 percent. The largest gains in imports from the U.S. during the same time period are frozen beef (27.5 percent), soybeans (49.0 percent), wheat (44.6 percent), citrus (25.4 percent), and fresh/chilled beef (140.5 percent). Imports of U.S. consumer-oriented products are up 6.7 percent, and imports of U.S. bulk products have staged a recovery, up 11.1 percent.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Seoul ATO [KS2]  
[KS]

## SECTION I. ECONOMIC SITUATION

Most local economists agree that Korea's current business slump will only worsen in the next few months. Although the economy is still expected to grow this year, the slower than expected rate of growth is a cause for concern. The recent forecast for GNP is 3-4 percent (a significant decline from 2002 when it was 6.3 percent) due largely to reduced industrial production and weak domestic consumption.

The reduction in industrial production has been linked to the lingering concerns over North Korea's nuclear ambitions. It seems as if the situation has stabilized for now, but it could flare up again at anytime if Pyongyang ups the stakes and does something which compels the United States to take some action. Additionally, business investment is down. All eyes are on the government to see how they will deal with unions and the several upcoming labor strikes planned for this summer.

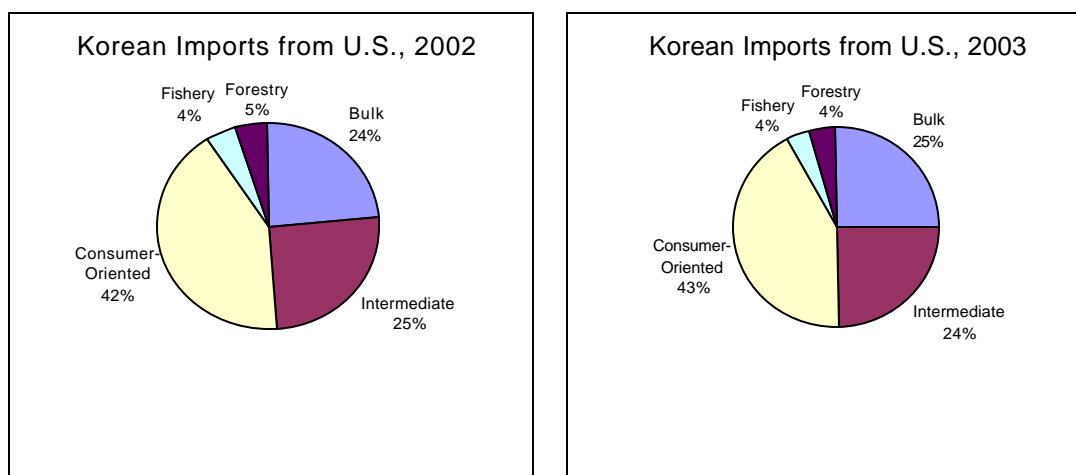
SARS does not seem to be playing a specific role in the South Korean economic downturn, but there is concern over the indirect impact on exports to China. The spread of SARS in Asia, which has become a major market for Korean goods, has been wrecking havoc with the country's current account balance.

The rising credit card debt is somewhat responsible for the weak demand. Korean consumers continue to use credit cards and incur huge debt despite government warnings to credit card companies to stop extending credit. Only China, Britain and America put more purchases on plastic. Additionally, consumer confidence continues to be weak because there have been relatively few signs of recovery.

Although the situation appears quite gloomy, some economists maintain that there is a limit to how long consumer spending will remain depressed. If there is the slightest sign of the economy making a rebound, people will start to spend more money. The drop in international oil prices will also help to restore the current account balance in the coming months. Local opinion is that as long as the government maintains consistent policies and pursues corporate, financial, labor and public sector reforms sustained growth could be maintained.

## SECTION II. AGRICULTURAL SITUATION

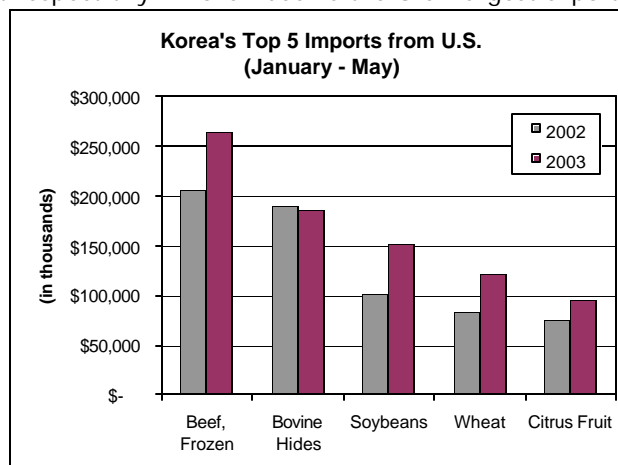
Korea continues to be the 4<sup>th</sup> largest importer of U.S. agricultural, fish, and forestry products, behind Mexico and ahead of China. Although slowed recently, total Korean imports from the U.S. are up 5.4 percent, 4.2 percent worldwide, from January-May as compared to same time last year. While Korea depends on imports for 70 percent of its food and feed consumption, local production continues to decline as demand continues to increase. Imports of U.S. bulk, intermediate, and consumer-oriented products are higher in comparison to last year at this time (January-May); however, only U.S. consumer-oriented is collectively gaining market share and a greater percentage of U.S. imported products are coming from consumer-oriented and bulk sectors.



January-May 2003, bulk commodity imports are up 11.2 percent in Korea, up 11.1 percent from U.S. Compared to 2002, imports and market share from the U.S. are up for soybeans (49.0 percent, +3.8 percent points) and wheat (44.6 percent, +5.1 percent points) but down for maize (-64.0 percent, -9.4 percent points) and cotton (-23.8 percent, -7.7 percent points). U.S. wheat has rebounded from its previous low trade early in the calendar year. Gains achieved have been in combination of a recent spur in supply and a favorable wheat-corn price ratio.

While total imports of intermediate products are down 3.2 percent, imports from the U.S. are up as a total 2.6 percent from last year, January-May. Raw Bovine Hides are mostly steady as the primary export from the U.S. to Korea, shrinking from \$189 to \$186 million. Key movements in the intermediate sector have been increases in hay/fodder (29.0 percent), soybean meal (211.3 percent), and animal feeds (50.0 percent) and drops in soybean oil (-58.8 percent) and furskins (-30.7 percent). The key shifts in U.S. market share have been in soybean oil (-24.3 percent points), hay/fodder (+13.0 percent points) and soybean meal (+11.4 percent points). Soybean meal may be seeing experiencing a temporary jump in imports in response to a fire that broke out in a local Korean crushing plant thus hindering its current output.

Consumer-oriented imports from the U.S. grew slower than imports from the rest of the world from January-May, 6.7 percent compared to 8.1 percent respectfully. Frozen beef is the U.S.' largest export to Korea and accounts for nearly a quarter of all consumer-oriented U.S. exports and has grown by 27.5 percent this January-May as compared to last. The most prominent growth for U.S. exports has been in fresh/chilled beef, growing 140.5 percent, and is projected to top \$50 million in 2003. The gains in beef exports have reflected the increased price levels from last year's time period and consumers' willingness to continue purchases in spite of the worsened economy. Citrus grew by 25.4 percent and maintained 99.9 percent market share, offals stayed fairly steady, and poultry was down 58.7 percent while losing 30.8 percent points market share. Poultry exports should not be feared necessarily, exports usually come in bundles and, as part of their traditional diet, the Korean population will soon be eating more chicken as summer comes in season.



U.S. Fishery and Forestry sectors experienced a -5.3 percent and -9.8 percent change respectfully from this January-May compared to last. After log exports jumped in 2002, logs have been a bit slower this year, down 2.7 percent from last year's period, yet they still represent nearly two-thirds of Korea's U.S. forestry imports. Veneer is feeling the same slide after a similar jump in 2002. Both falls can be related to increased competition from paper and plastic building supplies and the recession in the Korean housing and construction industry. Lumber trade continues to dwindle. It is currently -24.5 percent off the previous January-May pace; furthermore, U.S. lumber is on pace to decrease exports for the fourth consecutive year. While frozen fish exports from the U.S. have changed -23.0 percent as compared to last January-May, fish fillets are coming back strong, up 19.8 percent, as compared to last year's low export totals.

### SECTION III. PROMOTIONAL OPPORTUNITIES

**Korean Wine Educators' Trip to California, July 27-August 3, 2003** - ATO Seoul will bring a group of local wine educators and reporters to California on an educational tour. The group will be exposed to a

variety of wine and wineries in California. For more information about this event, please contact Mr. Oh, Sang Yong ([ohs@fas.usda.gov](mailto:ohs@fas.usda.gov)) in our office.

## SECTION IV. HOT TOPICS

### Sugar Confectionery Products

Imports of sugar confectionery products from the U.S. have been steadily growing over the past five years and in 2003 are expected to reach \$7 million an all time record. January-May 2003 imports from the U.S. have increased 27.8 percent from the same time last year. Total imports of sugar confectionery products into Korea were \$47 million last year and the U.S. market share was about 10 percent. In 2003, the U.S. market share is expected to increase to 14 percent as importers become more familiar with U.S. candy products and U.S. candy companies realize the potential in the Korean market.

### Lotte Promotion

A ten-day, three-store promotion at the largest retailer in Korea, Lotte Department Stores, occurred in late June. Fifteen importers, most offering new-to-market products participated in the event. Sales totaled \$160,000, while costs to ATO Seoul were \$15,000.

## SECTION V. REPORTS PUBLISHED IN PAST THREE MONTHS

### Marketing Opportunities in the Provincial Cities, April 4, 2003 (KS 3011)

This report provides information about the market for U.S. processed food products outside of the capital city of Seoul. Increasingly, FAS Cooperators, MAP participants and exporters are expanding their efforts to include these other major Korean urban areas. While Seoul marketers and consumers lead the country in innovation, the ATO finds growing interest in provincial areas for U.S. processed food products.

### Korean Potato Market, May 26, 2003 (KS 3028)

In Korea, consumption of potato and potato products is growing faster than domestic production and, as a result, imports are taking a larger share. The four countries controlling potato sectors in Korea are Australia, Germany, Japan, and the United States. The largest threat to U.S. products in Korea is Canada in the prepared-frozen potato sector. The greatest potential for U.S. exporters is in the fresh and dehydrated potato sectors.

## SECTION VI. POST CONTACTS AND FURTHER INFORMATION

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